

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-5-G

November 5, 2009

IN RE:)	
)	
Annual Review of Purchased)	
Gas Adjustment and Gas Purchasing)	
Policies of South Carolina Electric &)	SETTLEMENT AGREEMENT
Gas Company)	
)	
_____)	

This Settlement Agreement (“Settlement Agreement”) is made by and between the South Carolina Office of Regulatory Staff (“ORS”) and South Carolina Electric & Gas Company (“SCE&G” or “Company”) (collectively referred to as the “Parties” or sometimes individually as “Party”);

WHEREAS, counsel for CMC Steel South Carolina (“CMC Steel”), the only other party to this docket, has stated that CMC Steel does not intend to oppose this Settlement Agreement;

WHEREAS, on July 28, 2009, the Public Service Commission of South Carolina (“Commission”) issued the notice of hearing for the 2009 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies (“PGA”) of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G’s gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is March 1, 2008 to July 31, 2009 (“Review Period”);

WHEREAS, the review period of SCE&G's PGA typically consists of a twelve-month time period; however, in this PGA the Review Period was extended to a seventeen month time period as a result of the Commission having granted permission to conduct the PGA hearing during the Fall instead of the Summer.

WHEREAS, ORS examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, ORS determined that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment and correctly adjusted the gas cost recovery factors for each customer class in accordance with the terms of Order No. 2006-679; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider prudently and reasonably and in accordance with the terms of Order No. 2005-619; d) recovered its gas costs consistent with applicable tariffs and Commission orders, subject to the adjustment described in the ORS direct testimony of Roy H. Barnette at page 6, line 14 through page 7, line 2; e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and as modified in Order No. 2008-546; and f) was prepared during the Review Period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony and exhibits of Martin K. Phalen, Rose M. Jackson, Alice A. Fox (including her supplemental direct testimony), Keith C. Coffey, Jr., Roy H. Barnette, and Carey M. Flynt without cross-examination. Furthermore, each witness will take the stand to present his or her

testimony and, if necessary, make non-material changes to their testimony comparable to those that would be presented via an errata sheet or through a witness noting a correction. With respect to this Settlement Agreement, Company Witness Jackson is the witness designated to be primarily responsible for providing support for the Settlement Agreement at the hearing scheduled in this case. The Parties agree that pre-filed settlement testimony is not needed in this case; however, Witness Jackson will supplement the presentation of her testimony at the hearing to include testimony supportive of this Settlement Agreement.

2) For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period March 1, 2008 through July 31, 2009 as set forth in ORS Audit Exhibit RHB-1 attached to the testimony of Roy H. Barnette.

3) The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679, subject to the following modifications:

- a) The Parties agree that the amount designated as a "material difference" should be increased from an amount "equal to or greater than \$0.01 per therm" to an "amount greater than \$.04 per therm."
- b) The Parties agree that if the increase calculated is less than or equal to \$.04 per therm, then the Company should have the discretion to change rates if it believes there would be a reasonable impact to customer bills.
- c) The Parties agree that the criteria set forth in paragraph 3(a) and (b) above be applied by customer class and not by component within customer class.
- d) The Parties agree that the PGA Tariff included as Exhibit No. ____ (AAF-3) to Company Witness Fox's Supplemental Direct Testimony includes the appropriate revisions incorporating the above changes. A "clean" version of Exhibit No. ____ (AAF-3) is

attached hereto and incorporated herein by this reference as Settlement Agreement Exhibit A.

4) The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on page 4 in Ms. Fox's pre-filed direct testimony (Residential 66.11%; Small General Service/Medium General Service 31.78%; Large General Service 2.11%) are appropriate and should be used for cost of gas calculations beginning with the first billing cycle of January 2010.

5) As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs, if applicable, on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

6) ORS agrees to SCE&G's recommendation of converting the PGA process from a cycle-month sales calculation basis to a calendar-month sales calculation basis to more precisely match the monthly revenues from gas sales to the cost of gas sold. A similar request from SCE&G was approved in the Company's Annual Review of Base Rates for Fuel Costs in Docket No. 2009-2-E. This change creates a credit against the PGA over-collection as a result of converting the PGA administration process from a cycle-month sales calculation basis to a calendar-month sales calculation. ORS agrees to SCE&G's proposal that the credit balance as of November 30, 2009 in the unbilled gas cost adjustment account be applied to the PGA under- or over-collection calculation beginning with the first billing cycle of January 2010, and that this

adjustment account will be considered in all PGA calculations thereafter. Further, the initial credit and future monthly adjustments will be applied to the demand component of the cost of gas factor.

7) The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G were conducted and administered during the Review Period consistent with Order No. 2006-679 and as modified by Order No. 2008-546. No modifications are proposed to the hedging program and methodologies by the Parties in this proceeding.

8) SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties further agree that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

9) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

10) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

11) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

12) This Settlement Agreement shall be interpreted according to South Carolina law.

13) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement

and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[SIGNATURES ON THE FOLLOWING PAGES]

WE AGREE:

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WE AGREE:

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BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-5-G

IN RE:

Annual Review of Purchased Gas)	
Adjustment and Gas Purchasing Policies of)	CERTIFICATE OF
South Carolina Electric and Gas Company)	SERVICE
)	
)	

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Chrystal L. Morgan

November 5, 2009
Columbia, South Carolina